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SIPDIS

SENSITIVE

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TREASURY FOR JLEICHTER AND MMILLS  
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SUBJECT: TERROR ATTACK'S IMPACT ON FINANCIAL MARKETS

REF: ISTANBUL 1744

11. (Sbu) Summary: Though it is still early to judge, Turkish financial markets showed initial resilience in dealing with today's Istanbul terror attacks. The stock market fell sharply before it stopped trading. The foreign exchange, government security and interbank markets continued to function, however, and fell only modestly, albeit with low volume. The Central Bank succeeded in calming markets with an early statement that it was adding liquidity, cutting overnight borrowing rates, and that it would stay open late, if needed. Though it is not yet known whether the Stock Exchange will open tomorrow, even bombed HSBC will reportedly open. End Summary.

12. (U) Following Saturday's synagogue bombings, Turkish financial markets reacted calmly on Monday, with less of a sell-off than in international markets. Today's bombings, however, raising fears of a campaign against Turkey, and targeting a major foreign-owned Turkish bank, HSBC, initially sent the stock market down sharply. The IMKB 100 index fell 7.37 percent to 14,617 in the first half hour after the news broke. The exchange then decided to close for the day to calm the market.

13. (Sbu) The Central Bank acted quickly, issuing a statement by mid-day. The Bank said it would add liquidity, cut overnight bank lending rates from 31 to 28 percent, and stay open late, if needed, to allow banks to complete transactions. The bank also warned market operators against speculating in the foreign exchange market. The Bank's statement seems to have been highly effective: the government securities, foreign exchange, and interbank markets continued to function, albeit with low volume, and ended the day down, but only modestly. The interest rate on the benchmark bond, for example, only rose from 28.69 percent at yesterday's close to 29.07 percent and the lira only fell from 1.458 million per USD in the interbank market to 1.484 million at the close. Comment: with the low trading volumes today, these numbers should be treated with caution--they may not indicate the levels that the markets will settle at once they resume normal trading. End Comment. Central Bank Governor Serdengeçti told Econcouns that because of the HSBC bomb's proximity to many banks, trading virtually stopped in the first hour or two after the bombs. By the time trading resumed, according to Serdengeçti, traders slightly calmer mindset--helped by the Central Bank's announcement--may have helped avoid a sharp fall.

14. (Sbu) Similarly, Turkish Treasury Public Finance Director General Tulay Saylan told Econ Specialist that the t-bill market traders were relatively calm though transaction volume almost stopped. She said foreign investors reacted more, selling Turkish securities, but by later in the day even foreigners were trading in a more normal fashion.

15. (Sbu) A Citibank executive told Econoff that, though they had adopted additional security precautions, they could not close unilaterally and needed to continue to honor and complete transactions. He noted that the HSBC building that was bombed was not the locale of HSBC's operations center, such that HSBC had continued to operate. According to the Citibanker, a HSBC executive told him the bank would, heroically, be open on Friday. In a similar vein, Kubilay Cinemre, a senior executive at Garanti Bank, also told econoff the markets had held up relatively well, with even the Eurobond market trading about where it was last week. Cinemre, admitted, of course, the events would add to Turkey's risk premium.

16. (Sbu) On the other hand, though it is very early for analysis of the impact on Turkey's economy, one Istanbul analyst has already posited that the attacks could reinforce U.S. and international support for Turkey, adding to investors' tendency to view Turkey as a "moral hazard play," meaning investors can rely on continued U.S. (and therefore IMF) geostrategic support. Though the attacks can be expected to harm the tourism sector, one Istanbul analyst pointed out to econ specialist that the timing--at the beginning of the slow winter season--might lessen the damage, provided there are no more attacks before the spring season.

17. (Sbu) At 5:00 PM local time, Econ Specialist spoke to a stock exchange official who said they still had not decided whether to open Friday. The exchange faces a quandary: if they stay closed tomorrow the market will remain closed throughout next week's Bayram holiday, only reopening, November 29. If they reopen tomorrow, however, they could face a continuation of today's sharp sell-off. Bankers with whom econoff spoke were divided on which approach made more sense: some arguing for the extended cooling-off period while others advocated reopening to demonstrate the soundness of the market.

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